

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF SOUTH CENTRAL BELL)
TELEPHONE COMPANY OF AN)
ADJUSTMENT IN ITS INTRASTATE) CASE NO. 8847
RATES AND CHARGES)

and

THE VOLUME USAGE MEASURED RATE)
SERVICE AND MULTILINE SERVICE)
TARIFF FILING OF SOUTH CENTRAL) CASE NO. 8879
BELL TELEPHONE COMPANY)

O R D E R

On February 7, 1984, the Kentuckiana Burglar and Fire Alarm Association, Inc., ("KBFAA") filed a motion and memorandum in support thereof seeking rehearing or reconsideration relating to private line rates, specifically the Series 1000, Type 1101 and Telemetry/Alarm Bridging Service ("TABS") services. On February 8, 1984, South Central Bell Telephone Company ("SCB") filed its Petition for Rehearing on various designated issues. The Attorney General's Division of Consumer Protection ("AG") filed responses to the rehearing requests on February 17, 1984, and February 21, 1984. On February 24, 1984, SCB filed a response to the AG.

Customer Premises Equipment ("CPE") Adjustment

The Commission will grant SCB rehearing on the adjustment to revenue requirements for complex inside wiring. SCB shall

file a complete 1982 price-out of the revenues shown in the 1982 Embedded Direct Analysis ("EDA") for "Terminal Equipment" within 10 days from the date of this Order. Moreover, as the burden of proof is with SCB the Commission will further require that SCB file within 10 days all supporting documentation to show that revenues, expenses and investment associated with complex inside wiring have been assigned to categories other than "Terminal Equipment" in the EDA. This analysis and documentation should show the specific quantification of revenues (accompanied by a 1982 price-out), expenses and investment in complex inside wiring and the specific category of service to which these amounts have been assigned in the EDA. Full reference to the 1982 EDA Summary should accompany this analysis.

Complex Wiring

SCB contends in its Petition for Rehearing that intra-system wire rates and charges will not produce the \$6,303,000 authorized in the Commission's Order of January 18, 1984, in this case, because, first, on November 2, 1983, in Docket No. 82-681, Detariffing of Customer Premises Equipment and Customer Provided Cable/ Wiring, the Federal Communications Commission ("FCC") detariffed the installation of complex wiring, causing a revenue reduction of \$1,370,595, and, second, disconnections of complex inside wiring will cause revenues to diminish. Furthermore, SCB contends that, also as a result of the FCC's action, the Commission wrongly attributed service connection revenue of \$521,184 and price list materials revenue of \$132,718. In sum, SCB claims an additional revenue need of \$2,024,497 in this area.

The Commission will grant SCB rehearing on the effect of the FCC's Order in Docket No. 82-681, but will deny SCB rehearing on the issue of attrition, because any attrition that may occur is neither known nor measurable, as is evidenced by SCB's failure to state a revenue value. As a condition of rehearing, within 10 days from the date of this Order, the Commission will require SCB to file a copy of the FCC Order in Docket No. 82-681 and a narrative analysis of its impact upon this case.

The Commission will not grant SCB a rehearing on the issue of a time and materials maintenance charge for complex inside wiring. The Commission is of the opinion that SCB is obligated to maintain its facilities and that the Commission has no jurisdiction to set rates governing the maintenance of unregulated customer-provided facilities.

Rate of Return

SCB requested a rehearing on the issue of the appropriate return on equity. In the request, SCB stated that the return on equity granted was inadequate and unreasonable, contrary to the weight of the evidence and was based on unspecified factors outside the record. The Commission was criticized for considering current economic conditions; however, the Citizens Telephone Co. v. Public Service Commission, Ky., 247 S.W.2d 510, 514 (1952) decision clearly acknowledges the Commission's right to consider current economic conditions such as the prevailing money market. SCB did not present any new evidence or arguments in its application for rehearing. In its Response to Petition for Rehearing, the AG stated that the 13 to 14 percent range of return found

reasonable by the Commission was consistent with and supported by the testimony of the AG's witnesses, Dr. J. W. Wilson and Mr. Mark Langsam. The AG believed that no real basis for SCB's position was presented. Current economic conditions must be considered by the Commission when determining the appropriate rate of return because SCB does not exist in a financial or economic vacuum and rates are being set for the future. Therefore, the Commission is of the opinion that SCB's request for a rehearing on the issue of the appropriate rate of return on equity should be denied.

Direct-Inward-Dialing

The Commission will not grant SCB a rehearing on direct-inward-dialing. In its Order of January 18, 1984, the Commission denied SCB's proposal to restructure direct-inward-dialing rates and charges because the restructuring was not cost-based and of no apparent benefit to any class of customer. In stating its conclusion, the Commission referenced the Brief of SCB, which stated that "While proposed rate levels are not specifically cost based, they were designed to achieve a revenue break-even." (SCB Brief, page 40.) The Commission does not consider a revenue "break-even" to be a surrogate for cost in rate design.

Tariff Price-Out

The Commission will grant SCB rehearing on the tariff price-out. Within 10 days from the date of this Order, the Commission will require SCB to file a tariff price-out summary and price-out support in each area where SCB believes that the Commission is in error.

Private Line

The Commission will not grant KBFAA rehearing on the issue of Special Signaling Service, i.e., Channel Series 1000, Type 1101, but will grant KBFAA rehearing on the issue of TABS. The 1982 EDA indicated an \$11,830,000 revenue deficiency from private line services as noted in the Commission's January 18, 1984, Order, while the Commission has only authorized a \$4,094,000 revenue increase on those services.

The Commission has often explained in numerous Orders that private line services underwent a comprehensive embedded cost based repricing in Case No. 7314, Notice of South Central Bell Telephone Company of An Adjustment in its Intrastate Rates and Charges for Private Line Channel Services. The repricing included Channel Series 1000, but did not include TABS, which became a service offering subsequent to Case No. 7314 and was priced on the basis of cost information independent of that filed in Case No. 7314. Thus, the Commission is of the opinion that there may be merit to KBFAA's contention concerning TABS.

The Commission will require that within 10 days from the date of this Order SCB shall file the most recent available cost information concerning TABS.

License Contract and Central Services Organization

SCB petitioned the Commission for a rehearing stating that the Commission erroneously calculated adjustments to the license contract by adjusting the expense portion but failing to include the revenues associated with the adjustment to license contract during the test period (Ballard Exhibit 3, Part 2, Column G,

lines 3 and 15). SCB is in error in this statement. The adjustments set out in Mr. D. M. Ballard's Exhibit 3, Column G, were made to normalize test period operations to reverse entries made in March for a nonrecurring transaction. Had the Commission failed to accept SCB's own and voluntarily proposed adjustment to test period revenue, revenue on an ongoing basis would have been understated since the purpose of the adjustment was to eliminate the accounting transaction booked during the test period but applicable to transactions from "1979 through April 1982 (prior to the test period)."¹

SCB further requested that the Commission modify its Order to allow the entire Central Service Organization ("CSO") expenses proposed. In its Order entered January 18, 1984, the Commission addressed at length (pages 45-55) its concerns regarding the CSO. SCB apparently did not interpret the Commission's Order correctly. SCB, in its Petition for Rehearing, apparently believes that the Commission fully accepted the core projects and disallowed the non-core projects. The Commission in its Order granted SCB revenues of \$1,911,000 for CSO expenses in total. This was the same amount as the proposed level of expenditures for the CSO core projects. However, the Commission stated clearly that:

its adoption of this level of expenditures as a transition mechanism is in no way indicative of the Commission's approval or disapproval of the proposed core or non-core projects or endorsement of the CSO. (Emphasis supplied.)²

¹ SCB's Response to Staff Request Dated 11/17/83, Item 1, Sheet 1 of 2.

² Order entered January 18, 1984, page 55.

The Commission had previously stated in its Order that adequate support existed in the evidence of record for total disallowance of all CSO expenses, but that a transition mechanism providing for some amount of expense due to an obligation to fund centralized national security and emergency preparedness was appropriate and fair, just and reasonable to both SCB and its ratepayers.

SCB in its Petition for Rehearing has supplied no new arguments or support to change the Commission's opinion regarding the benefit of the CSO to the Kentucky ratepayers. The Commission is therefore of the opinion that its actions in its Order entered January 18, 1984, were, as stated, fair, just and reasonable and thus no rehearing is warranted.

Management Salaries

SCB has requested that the Commission grant a rehearing on its disallowance of SCB's proposed adjustment for a management salary increase effective in October 1983, 6 months after the end of the test period. SCB further requested rehearing on the Commission's disallowance of SCB's proposal to include estimated salary, wage and wage-related increases to be effective in April, July and August, 1984.

Regarding the salary increase to management personnel in October 1983 SCB stated that this adjustment was not accepted, "even though salaries for personnel under collective bargaining agreements [the Communication Workers of America ("CWA")] have been recognized." SCB further stated "that management salaries

have and must continue to maintain a basic relationship to union and craft wages," and, "that the Order does not suggest, nor could it, that the raises granted to management were out of proportion to the increases granted union or craft workers or that they were otherwise unreasonable." There is no documentation whatsoever in the evidence of record to indicate or provide proof to the Commission to show that failure to allow the October 1983 management increase would discontinue the "basic relationship to union and craft wages" nor has there been evidence submitted to indicate what the appropriate relationship should be. Moreover, the Commission has expressed concern regarding SCB's salary, wage and fringe benefit levels in all areas and as stated in the Order is requiring a thorough evaluation of this and related issues by a firm of the Commission's selection. Further, the Commission, contrary to SCB's statement and interpretation of the Commission's Order, did in fact suggest that the October 1983 increase granted management was out of proportion to the increases granted the CWA employees in August 1983. On page 28 of its Order, the Commission stated its findings that the wage increase granted CWA employees in August 1983 was "in line with current inflationary trends," while "the increases in management salaries which occurred 6 months beyond the end of the test period and ranged from 0-15 percent. . . was later than the CWA increase, was larger and was discretionary."

Regarding the estimated 1984 salary, wage and wage-related adjustments proposed by SCB, the Commission disagrees with SCB's petition that these adjustments are measurable at this date, as

SCB's witnesses stressed throughout the proceedings that SCB is undergoing major changes in the modernization of its plant and is utilizing less employees and therefore these estimates could change significantly. Finally, SCB's argument that these wage increases will become effective prior to or contemporaneously with implementation of current rates is without merit. The contract increases occur in July and August 1984 and the discretionary management increase scheduled for April 1984 may or may not be implemented at that date.

Thus, the Commission is of the opinion that rehearing on these issues should be denied.

Corporate and Community Affairs

SCB requested rehearing on the Commission's adjustment to disallow approximately \$359,000 of the total test year expenses of \$1,236,100 of SCB's Corporate and Community Affairs Department. The Commission made a similar adjustment in SCB's last general rate case, Case No. 8467, and that decision is still being litigated. SCB presented no new arguments in its petition on this issue and the Commission is of the opinion that rehearing should be denied.

Post-Divestiture Separations Factors

SCB proposed that the Commission grant rehearing for it to present "certain study data" which in SCB's opinion would corroborate its estimated post-divestiture separations factors. The Commission in its Order of January 18, 1984, disallowed the use of the estimated separations factors and used the historical separations factors for the 12 months of the test period. During

the proceedings in this case, the Commission requested that SCB submit the separations study or studies supporting its estimated post-divestiture separations factors, and on December 19, 1983, nearly 5 months after the case was filed, SCB filed its response to that request stating that no study existed. Thus, the Commission found that SCB had failed to meet its burden of proof and denied the use of the estimated factors.

The AG in its response to SCB's Petition for Rehearing recommended that the Commission deny SCB rehearing on this issue. The AG, stated on pages 10 and 11 of its response that:

Now that its estimated adjustments have been rejected, the Company claims to have actual data which corroborates its original results. Barely six weeks have passed since divestiture. The actual data accumulated under new operating conditions is clearly insufficient to warrant reconsideration of the Commission's order. It is analogous to using six weeks operating data to review the reasonableness of a rate order.

The Commission agrees with the AG. If indeed the data SCB purports to now have to support these factors is post-divestiture data, the short time period renders the results inadequate to support any changes in historical data based on 12 months of operations.

Moreover, the Commission has been extremely lenient with SCB in granting it the opportunity to support and even alter its case months into the period of investigation. In fairness to all the parties, the Commission cannot continue this leniency indefinitely for the same reasons cited by the Kentucky Supreme Court in Stephens v. Kentucky Utilities, Ky. 569 S.W.2d 155, 158 (1978):

In each case, the situation after the hearing would be the determining factor, and this would result in complete destruction of an orderly process in the legislative scheme for setting rates for utilities. Public policy dictates that these actions not be unnecessarily prolonged.

SCB had months to prepare and present information and either did not or could not in this instance. Thus, SCB's claim that this information was not previously available and could not reasonably have been produced is at best an extremely weak and unsupportable argument and violates the intent of the Commission's investigatory process.

Therefore, the Commission is of the opinion that rehearing on this issue should be denied.

Tax Effect of Increased Debt Charges

SCB has requested a rehearing on the tax effect of increased debt charges. SCB stated that the Commission has erroneously made an upward adjustment in net operating income to recognize an assumed tax impact associated with a 45 percent debt structure and that while its debt ratio will be higher after divestiture, its total actual amount of debt and interest charges thereon will be the same.

The Commission accepted SCB's proposed debt ratio and composite interest rate and reflected those decisions in the return it granted. Simple multiplication of these factors and total capital assigned to the Kentucky intrastate jurisdiction produces the level SCB proposed to be the applicable post-divestiture interest expense. Interest is tax deductible and SCB failed, as it has failed in all past cases wherein it proposed to use a

hypothetical debt ratio higher than actual, to adjust income taxes for the greater level of interest deductions. The Commission has consistently made this adjustment, which SCB's own accounting witness, Mr. Jack Lester, Chief Accountant, stated in Case No. 7774 was appropriate.³

SCB is not proposing to reduce its interest expense incorporated in the overall return granted by this Commission. Thus, without a reduction in interest expense which is included in the rates charged customers the adjustment to taxes is consistent and appropriate and should not be reduced.

Therefore, the Commission is of the opinion that rehearing on this issue should be denied.

Discovery Difficulties

SCB disputes the Commission's discussion of the problems encountered in obtaining information which arose in this proceeding. However, the Commission finds that the January 18, 1984, Order accurately reflects the status of the proceedings. In any event, SCB has not requested any specific relief on this point and the Commission will therefore affirm its original Order.

Other Items

Although SCB objected to the Commission's treatment of Job Development Investment Tax Credits end-of-period methodology, accelerated recovery of excess tax deferrals, charitable contributions, institutional advertising and employee concessions and

³Case No. 7774, Transcript of Evidence, Volume I of III, hearing of May 20, 1980.

moved the Commission to modify its Order, it offered no new arguments to support change. Further, SCB acknowledged that these issues are pending on appeal and chose not to argue them further in this proceeding. The Commission is therefore of the opinion that no rehearing is warranted on these issues and that the findings in the Order in this case should not be modified.

Local Measured Service

SCB has petitioned the Commission for reconsideration of its decision to place a moratorium on the provision of Local Measured Service ("LMS") offering. SCB contends that the Order is discriminatory under KRS 278.170, and has created significant customer confusion and dissatisfaction and a high degree of complaints. Furthermore, SCB contends that the Commission's "findings or suggestions" that the expansion of LMS would jeopardize the availability of future flat rate ("FR") service, that across-the-board LMS would cost more than FR service, and that the Commission approved LMS on "an experimental" basis in Case No. 8150, are unwarranted and contrary to the evidence.

First, the Commission, in its Order establishing the LMS moratorium, stated several concerns with SCB's proposed bifurcation of local exchange rates. Two of these concerns were that SCB's pricing strategy could ultimately lead to the demise of FR service and that the provision of across-the-board LMS in Kentucky may cost more than FR service. The basis of these concerns was carefully documented in the Order on pages 97 through 99. SCB has not provided any additional evidence which would alleviate the Commission's concerns.

Secondly, the Commission approved an optional LMS tariff for the Frankfort exchange in Case No. 7871, the Measured Service Rate Tariff of South Central Bell Telephone Company, and this was the Commission's reference in its January 18, 1984, Order, not Case No. 8150, as SCB stated in its petition. In its Order in Case No. 7871, the Commission established reporting requirements on the penetration rates of LMS. In subsequent cases the Commission permitted further expansion of LMS; however, the Commission maintained the LMS reporting requirements "to monitor its implementation and gather information on local measured service," as established in Case No. 7871. Therefore, the Commission continues to be of the opinion that LMS is an experimental tariff, and even if not an experimental tariff at this point, that it is subject to the Commission's continuing review.

Finally, the Commission is fully aware of its responsibilities under KRS 278.170. It is that concern which, in part, provides the motivation for implementing a moratorium on LMS. SCB has failed to provide the Commission evidence of either differing relative-cost structures or income distribution characteristics so that the Commission would have some reasonable basis on which to differentiate between LMS and FR consumers. However, SCB does admit that the movement of consumers from LMS to FR service would result in a revenue deficiency which would be recovered from FR consumers. The Commission is concerned that these subsidies may, in fact, result in discrimination against remaining FR consumers if implemented as proposed by SCB. Though the Commission regrets any customer confusion and dissatisfaction due to the LMS

moratorium, its responsibility is to protect all consumers and insure fair, just and reasonable rates.

Therefore, the Commission will reject SCB's Petition for Rehearing on this point. The LMS moratorium should continue until such evidence can be developed to support expansion or rejection of LMS in Kentucky. The Commission intends to initiate that proceeding forthwith.

Repression

In its Petition for Rehearing, SCB raised several specific points regarding repression that deserve comment by the Commission.

Items (c) and (d) concern the technical specifications of the models used to obtain repression estimates. With respect to Item (c), the business access line models cited by SCB as containing properly deflated price variables suffer from serial correlation, a defect that renders the results of these models invalid. Therefore, it remains true that SCB has not produced a theoretically and statistically acceptable business access line equation in this case.

In Item (d), SCB argues that the residence access line equation should be recognized because it utilizes the theoretically correct "real" price variable. However, this is not the only specification problem indicated by the evidence of record to exist in this equation. SCB had ample opportunity to address all issues of specification during hearing. The Commission remains convinced the record demonstrates SCB failed to prove it has presented theoretically and statistically acceptable estimating

models.

Item (a) states that the Commission has recognized repression in several services in past cases. While the Commission acknowledges this may be true, it is also true that the principle of res judicata is not applicable to the Commission. In particular, the Commission is not constrained from altering its policy regarding repression adjustments. It has become increasingly clear that these adjustments do not meet Commission standards for allowable adjustments to test year results; accordingly, the Commission formulated new policy toward them in several recent rate cases. There has been no persuasive evidence presented in this case to indicate this new policy is inappropriate.

Item (b) is correct in stating that operator and directory assistance repression adjustments were not denied in this case. However, had these adjustments been recognized as repression adjustments per se, they would have been disallowed, consistent with the Commission's stated policy. The Commission believes SCB's method of presenting these adjustments contributed to this oversight. In particular, the response to Item 44 of Staff Request #3 led the Commission to believe that the only repression adjustment in this case involved basic exchange service. In order to avoid similar inadvertent errors, any repression adjustments proposed in future rate cases should be filed specifically as repression adjustments, with appropriate support.

Disallowance of these repression adjustments would have a minimal impact upon this case; therefore, the Commission will not redesign SCB's rates at this time. In the event other decisions

reached on rehearing require recalculation of rates, changes resulting from denial of these adjustments will be incorporated.

SCB's petition contends that denial of the basic exchange repression adjustment will prevent SCB from earning its authorized rate of return. The Commission points out that in the year following SCB's last rate award--an award which also denied this repression adjustment--SCB did in fact earn the annual rate of return authorized under Commission rate-making principles. Clearly, the lack of a basic exchange repression adjustment does not preclude SCB from earning its authorized return.

The record in this case demonstrates convincingly the proposed repression adjustment is inherently not known and measurable, and if granted would constitute an improper transfer of risk from shareholders to ratepayers. The speculative and imprecise nature of this adjustment is aptly illustrated by the fact that in Case No. 8467 a local service repression adjustment of \$6.43 million was proposed on a total revenue request of \$66.18 million, while in this case the basic exchange repression adjustment amounted to approximately \$3.85 million on a total revenue request of \$163 million.

For the reasons set forth above, SCB's Petition for Rehearing on this issue is denied.

Management Responsibility

Under KRS 278.020 the Commission has the authority to require a certificate of convenience and necessity for construction which is not in the ordinary course of business. In the past, SCB has itself sought and obtained certificates of public

convenience and necessity for construction of such items as central office conversions. In recent years that has not been SCB's practice, even though capital investment expenditures have approximated \$150 million per year for the last 5 years.⁴ SCB's expected level of construction expenditures for 1984 are \$147.5 million.⁵ Furthermore, there is no indication that the annual construction expenditures will markedly decrease in subsequent years. Moreover, SCB admits that this level of construction spending will necessitate rate increases.⁶ Thus, under the Commission's regulation, 807 KAR 5:010, Section 8(3), the Commission finds SCB's anticipated construction expenditures have the potential to materially affect SCB's financial condition and may result in increased rates to SCB's customers. SCB's allegation that the Commission is intruding into management responsibility is unfounded and the Petition for Rehearing on this issue should be denied.

The January 18, 1984, Order states that SCB shall file certain information prior to the requisition date in order that SCB will know prior to committing funds for a project whether the Commission will grant a certificate of convenience and necessity.

The Commission will clarify SCB's construction filing requirements to avoid unnecessary information being filed by SCB for projects which are an extension of existing facilities in the

⁴T.E. Vol. II, p. 25.

⁵Pre-filed testimony of W. R. Meredith, Exhibit 1.

⁶T.E. Vol. II, p. 25.

ordinary course of business. The clarification of the filing requirements will be expanded in two areas, central office and outside plant.

Central Office

In this area SCB was ordered to file cash flow analyses at least 6 months prior to the requisition date of any central office switching equipment. Initially, these studies should be filed in instances in which an existing switching office is being replaced by a more modern type of switching office. Examples of this would be electromechanical to analog or digital electronic office conversions or analog electronic to digital electronic office conversions. Studies need not be filed in situations where additions are made to an existing central office with the same equipment which is already in use therein. Currently, the major factor in the requirement for filing information related to central office construction is replacement of existing switching office with a more modern type of switching equipment, i.e., a central office conversion. The details which should be included in the studies are described in the January 18, 1984, Order.

Outside Plant

In this area SCB was ordered to file cash flow analyses 6 months prior to the requisition date of outside plant equipment which would be required for any project which has a total cost of \$150,000 or more.

Although the dollar figure given will not be changed, the projects of interest to the Commission will be clarified, and will be the only projects for which the cash flow analyses will

be required at this time. The projects for which the filings are required are those in which an addition involving new technology or a change in technology from that already in place at that location in outside plant equipment is utilized. Examples of projects for which filings are required include placement of inter-office or inter-exchange fiber optics trunks, or replacement of existing analog trunks with digital carrier trunks, both copper and fiber optics. Extensions in the ordinary course of business using technology already in place at that location are not candidates for outside plant filing requirement at this time, even if the project cost is above \$150,000.

If SCB is uncertain as to whether it should file studies on a given project, then it should ask the Commission for guidance.

In requiring SCB to file this information, the Commission does not intend to disapprove legitimate future construction projects. The Commission intends to open a generic case of telephone utility construction in the future in which the Commission intends to develop review procedures in greater detail; however it has the present responsibility to insure that construction projects are necessary and in the best interest of all SCB's ratepayers.

Depreciation

In its Order of January 18, 1984, the Commission determined that this case would not be kept open for resolution of the issue of recovery of increased expense caused by changes in the depreciation rates applicable to SCB's various categories of

telephone plant. As of the date of that Order the revised depreciation rates were not yet known nor measurable.

The "Three-Way" meeting consisting of SCB, the FCC staff, and the Commission staff, was conducted during the period between January 17-20, 1984. At that meeting agreement was reached on appropriate life and salvage values for all plant accounts. Following that meeting on February 8, 1984, the FCC staff issued its interim booking letter which sets out the agreed parameters. The interim booking letter stated that SCB is authorized to begin booking the revised depreciation rates effective April 1, 1984, or concurrently with revenues authorized by the Kentucky Commission.

SCB has now asked to supplement the record with evidence related to these revised depreciation rates, and for the Commission to approve tariffs covering the additional depreciation expense which will become effective upon the entry of the FCC booking letter. However, SCB has failed to demonstrate any reason for the Commission to change its opinion that this case is not the appropriate forum for resolution of any expense recovery resulting from depreciation rate prescription. The revised rates were not known until after the Order of January 18, 1984, and must still be formally approved by the FCC late in 1984 after a public comment period. Furthermore, the Commission has stressed throughout its January 18, 1984, Order the need to adhere to the test year concept as much as possible. The revenue figure referred to by SCB in its petition is based upon the revised depreciation rates applied to post test year investment; thus the

level of revenues associated with the new depreciation rates has not been properly matched.

Additionally, SCB has failed to address the Commission's concern that the rate design of any resulting tariffs to recover the appropriate revenues will need to be closely scrutinized to insure that rates are fair and equitable to all of SCB's subscribers. For these reasons the Commission reiterates its opinion that this case will not be kept open for resolution of this matter, and SCB's Petition for Rehearing on this item should be denied.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. For all of the reasons previously discussed, SCB's Petition for Rehearing should be granted in part and denied in part as specified in the above sections of this Order.

2. In accordance with the above discussion, KBFAA's request for reconsideration should be denied and KBFAA's request for rehearing regarding TABS services should be granted and the remainder of the request should be denied as specified in previous sections of this Order.

3. SCB should file certain information specified above within 10 days of the date of this Order.

IT IS THEREFORE ORDERED that SCB's Petition for Rehearing be and it hereby is granted in part and denied in part as previously indicated.


IT IS FURTHER ORDERED that KBFAA's request for reconsideration be and it hereby is denied and that KBFAA's request for rehearing regarding TABS be and it hereby is granted while all remaining rehearing requests be and they hereby are denied.

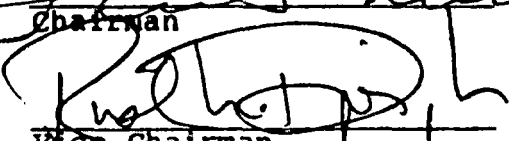
IT IS FURTHER ORDERED that SCB shall file the information designated herein within 10 days from the date of this Order.


IT IS FURTHER ORDERED that the rehearing requests granted herein shall be heard at a hearing to be held on March 27, 1984, at 9:00 a.m., Eastern Standard Time, at the Commission's offices in Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 27th day of February, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary